WILLIAMS PRODUCTION COMPANY
ONE OF THE WILLIAMS COMPANIES, INC.

November 21, 1996

Mr. David Guzy
Minerals Management Service
Royalty Management Program
Rules and Procedures Staff
P.O. Box 25165, MS 3101
Denver, CO 80225-0165

Re: Comments on Proposed Regulations - Amendments to Regulations Governing Valuation of Natural Gas Produced From Indian leases

Dear Mr. Guzy:

Pursuant to the proposed rule issued in the Federal Register by the Minerals Management Service (MMS) on September 23, 1996, Amendments to Gas Valuation Regulations for Indian Leases (30 CFR Parts 202 and 206) (the "Proposed Rule"), Williams Production Company (WPX) appreciates this opportunity to comment.

WPX is a natural gas production company with natural gas reserves located in certain Western and Mid-Continent states. WPX produces natural gas from coal seam and conventional gas reserves. Currently, WPX sells the majority of its natural gas under spot market contracts through an affiliate.

WPX is a member of the Rocky Mountain Oil and Gas Association (RMOGA) and the Council of Petroleum Accountants Societies (COPAS) and supports their comments and recommendations to the Proposed Rules and Regulations. In addition to the RMOGA and COPAS comments, WPX offers the following:

WPX generally endorses the MMS' Proposed Rule addressing the use of independent published index prices for valuation of natural gas produced from Indian lands. However, from its experience, WPX believes that the 10 percent used in the formula cited in subsection 206.172 (d) (iii), how to determine the index-based value for gas production, is considerably lower than the actual transportation allowances. WPX suggests that the percentage that should be used for the transportation allowance should be between 15 and 20 percent.

WPX could endorse the 10 percent as used in the formula only if subsection 206.172 (e), How you determine the minimum value for royalty purposes ("safety net"), be eliminated in its entirety for non-dedicated sales.

The higher royalty payment initiated from the formula could be offset from the certainty, simplicity and administrative benefits gained from the proposed rule. However, the certainty, simplicity and any administrative benefits are negated with the "safety net" provision contained in subsection 206.172 (e). The "safety net" provision would induce the need of tracing gas, and would inevitably lead to a continuation of the current cycle of endless audit disputes and litigation with regard to gas valuation on Indian leases. The 10 percent as used in the formula without the "safety net" would most definitely satisfy both the gross proceeds and major portion clauses contained in most Indian Leases.

There is added administration not required by the lease terms, under subsection 206.174 (g) (2). This subsection deals with the requirement of having a "minimum value" for gas plant products when a lessee chooses to perform an actual dual accounting calculation. This would effectively establish a dual accounting requirement for liquids values within the dual accounting calculation, and a major portion requirement of liquids within the major portion calculation, neither of which is required or even suggested by the lease terms.

WPX supports subsection 206.173, Alternative methodology for dual accounting, so long as its use is optional. This concept of allowing the use of an alternative "percentage" method of satisfying the dual accounting requirement contained in most Indian Leases eliminates uncertainty and institutes simplicity.

WPX would like to thank the MMS for the opportunity to provide comments on this Proposed Rule. If you have any questions regarding these comments, please feel free to call me at (918) 561-6175.

Respectfully submitted,

Darrell L. Gillen

Darrell L. Gillen
Manager, Leasehold Properties

cc: Bryan Guderian
Bryan Shore
RMOGA